

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Southeast Macomb Sanitary District	County Macomb
Audit Date June 30, 2004	Opinion Date September 3, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 2601 Cambridge Court, Suite 500	City Auburn Hills	State Michigan	ZIP 48326
Accountant Signature 			

Southeast Macomb Sanitary District

**Financial Report
with Supplemental Information
June 30, 2004**

Southeast Macomb Sanitary District

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Independent Auditor's Report

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of the Southeast Macomb Sanitary District (the "District") as of June 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Macomb Sanitary District at June 30, 2004 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and employees' retirement system schedule of funding progress (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 3, 2004

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Southeast Macomb Sanitary District

Management's Discussion and Analysis

Using this Annual Report

The Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. This is followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

Financial Overview

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintaining reserves for upgrading the efficiency of the system's infrastructure.

Condensed Financial Information

The following table presents condensed information about the District's financial position compared to the prior year. The most significant changes relate to the decrease in investments due to the additional investment in infrastructure during the current fiscal year. Even with the additional investment in infrastructure, net assets still increased by approximately \$513,000, which is consistent with management's conclusion that current reserve levels are sufficient to cover currently foreseen infrastructure needs.

TABLE I

	Year Ended June 30		Change	
	2004	2003	Amount	Percent
Assets				
Current assets	\$ 13,988,084	\$ 15,968,997	\$ (1,980,913)	-12%
Capital assets	6,215,395	2,945,462	3,269,933	111%
Total assets	20,203,479	18,914,459	1,289,020	7%
Liabilities				
Current liabilities	4,265,460	3,491,436	774,024	22%
Accumulated employee benefits	60,064	57,905	2,159	4%
Total liabilities	4,325,524	3,549,341	776,183	22%
Net Assets				
Invested in capital assets - Net of debt	6,215,395	2,945,462	3,269,933	111%
Unrestricted	9,662,560	12,419,656	(2,757,096)	-22%
Total net assets	<u>\$ 15,877,955</u>	<u>\$ 15,365,118</u>	<u>\$ 512,837</u>	3%

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the District's revenues and expenses compared to the prior year. The most significant change relates to an increase in operation and maintenance costs, which escalated to 23 percent higher than 2003, due in large part to increased engineering costs. In addition, the District experienced significant increases in pension, hospitalization, and pump station repair costs. The increase in sewage treatment costs is consistent with the increase costs passed on by Wayne County.

TABLE 2

	Year Ended June 30		Change	
	2004	2003	Amount	Percent
Operating revenue - Treatment fees	\$ 13,426,488	\$ 12,412,401	\$ 1,014,087	8%
Operating expenses:				
Cost of sewage disposal	12,148,486	11,305,396	843,090	7%
Operation and maintenance	830,808	673,931	156,877	23%
Administrative and other	130,141	129,829	312	-
Total operating expenses	13,109,435	12,109,156	1,000,279	8%
Other nonoperating revenue	195,784	294,443	(98,659)	-34%
Net income	<u>\$ 512,837</u>	<u>\$ 597,688</u>	<u>\$ (84,851)</u>	

Capital Asset and Infrastructure Planning

During the current year, the District began two different capital improvement projects that will continue in the 2004-2005 fiscal year. These two projects will improve the efficiency of the system and ease stress on two major drains operated by the system, namely the Nine Mile Road Drain Cleaning and the Eleven Mile Road Sanitary Relief Drain. The cost of these projects is being paid for by current resources of the District.

Economic Factors and Next Year's Budgets and Rates

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow. The District's budget for the year ending June 30, 2005 forecasts consistent volume in sewage flow and, therefore, costs.

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

Contacting the District's Management

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District offices.

Southeast Macomb Sanitary District

Statement of Net Assets June 30, 2004

Assets

Cash and cash equivalents (Note 3)	\$ 9,578,074
Investments (Note 3)	2,662,188
Accounts receivable	1,707,894
Accrued interest receivable	12,074
Prepaid insurance	27,854
Capital assets (Note 4)	<u>6,215,395</u>

Total assets	20,203,479
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Liabilities

Accounts payable	4,219,186
Retainage payable	34,000
Accrued payroll and related taxes	12,274
Accumulated employee benefits	<u>60,064</u>

Total liabilities	<u>4,325,524</u>
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Net Assets

Invested in capital assets	6,215,395
Unrestricted	<u>9,662,560</u>

Total net assets	<u><u>\$ 15,877,955</u></u>
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Southeast Macomb Sanitary District

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

Operating Revenue - Treatment fees	\$ 13,426,488
Operating Expenses	
Cost of sewage disposal	12,148,486
System maintenance and operation	830,808
General and administrative	31,602
Depreciation	<u>98,539</u>
Total operating expenses	<u>13,109,435</u>
Operating Income	317,053
Nonoperating Revenue - Interest income	<u>195,784</u>
Net Income	512,837
Net Assets - Beginning of year	<u>15,365,118</u>
Net Assets - End of year	<u><u>\$ 15,877,955</u></u>

Southeast Macomb Sanitary District

Statement of Cash Flows Year Ended June 30, 2004

Cash Flows from Operating Activities

Cash received from customers	\$ 13,363,911
Cash payments to suppliers for goods and services	(11,412,426)
Cash payments to employees for services	<u>(807,106)</u>

Net cash provided by operating activities 1,144,379

Cash Flows from Capital and Related Financing Activities

Construction in progress	(3,355,512)
Purchase of fixed assets	<u>(12,960)</u>

Net cash used in capital and related financing activities (3,368,472)

Cash Flows from Investing Activities

Interest received on investments	195,784
Purchase of investments	(2,662,188)
Proceeds from sale and maturities of investments	<u>4,440,159</u>

Net cash provided by investing activities 1,973,755

Net Decrease in Cash and Cash Equivalents (250,338)

Cash and Cash Equivalents - July 1, 2003 9,828,412

Cash and Cash Equivalents - June 30, 2004 \$ 9,578,074

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 317,053
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	98,539
Changes in assets and liabilities:	
Increase in accounts receivable	(62,577)
Decrease in accrued interest and prepaid expenses	15,181
Increase in accounts and retainage payable	770,060
Increase in accrued payroll and other accruals	<u>6,123</u>
Net cash provided by operating activities	<u><u>\$ 1,144,379</u></u>

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2004

Note 1 - Nature of Business and Significant Accounting Policies

The Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The District has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Investments

The District's deposits and investments, which are categorized on the statement of net assets as cash and investments, consist of the following:

	Cash and Cash Equivalents	Investments	Total Cash and Investments
Bank deposits (checking accounts, money market accounts, and certificates of deposit)	\$ 9,578,019	\$ 2,662,188	\$12,240,207
Petty cash and cash on hand	55	-	55
Total investments	<u>\$ 9,578,074</u>	<u>\$ 2,662,188</u>	<u>\$12,240,262</u>

The District is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

At June 30, 2004, the above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$12,300,000. Of that amount, \$400,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	2003	Additions	2004	Depreciable Life - Years
Capital assets not being depreciated:				
Land	\$ 79,243	\$ -	\$ 79,243	-
Construction in progress	228,935	3,355,512	3,584,447	
Capital assets being depreciated:				
Pump station	2,926,919	-	2,926,919	50
Interceptor	512,292	-	512,292	50
Nine Mile plant	37,887	-	37,887	15-30
Improvements	200,636	-	200,636	10-25
Paving and sewer	17,661	-	17,661	15
Trucks and equipment	77,645	10,472	88,117	3
Furniture and equipment	57,216	2,488	59,704	5-10
Subtotal	3,830,256	12,960	3,843,216	
Less accumulated depreciation for:				
Pump station	(646,096)	(61,250)	(707,346)	
Interceptor	(234,553)	(21,365)	(255,918)	
Nine Mile plant	(30,793)	(1,992)	(32,785)	
Improvements	(151,389)	(6,030)	(157,419)	
Paving and sewer	(17,661)	-	(17,661)	
Trucks and equipment	(64,156)	(3,893)	(68,049)	
Furniture and equipment	(48,324)	(4,009)	(52,333)	
Subtotal	(1,192,972)	(98,539)	(1,291,511)	
Net capital assets being depreciated	2,637,284	(85,579)	2,551,705	
Total capital assets - Net of depreciation	\$ 2,945,462	\$ 3,269,933	\$ 6,215,395	

Note 5 - Defined Benefit Pension Plan

Plan Description - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

Funding Policy - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2004

Note 5 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the District's annual pension cost of \$104,738 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the individual aggregate actuarial funding method. Significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 70,040	\$ 58,548	\$ 104,738
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

Note 6 - Postemployment Benefits

The District provides health care benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured health care plan, with no contribution required by the participants. The total expense for postemployment health care benefits, which is recognized as insurance premiums become due, amounted to approximately \$35,000 for the year ended June 30, 2004.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2007.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2004

Note 7 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Required Supplemental Information

Southeast Macomb Sanitary District

Employees' Retirement System Schedule of Funding Progress June 30, 2004

As of June 30	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation (PBO)	(3) Percent Funded (1) ÷ (2)	(4) Unfunded PBO (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded PBO as a Percentage of Covered Payroll (4) ÷ (5)
1994	\$ 656,648	\$ 659,755	99.53	\$ 3,107	\$ 301,934	1.03
1995	766,636	866,646	88.46	100,010	339,664	29.44
1996	838,573	953,307	87.96	114,734	301,324	38.08
1997	666,089	877,846	75.88	211,757	283,670	74.65
1998	249,124	289,160	86.15	40,036	270,977	14.77
1999	322,156	390,137	82.58	67,981	283,531	23.98
2000	341,316	468,637	72.83	127,321	331,778	38.38
2001	425,359	642,796	66.17	217,437	367,209	59.21
2002	508,368	689,752	73.70	181,384	284,931	63.66
2004*	506,143	927,973	54.54	421,830	353,845	119.21

* No actuarial valuation was completed as of June 30, 2003.

Other Supplemental Information

Southeast Macomb Sanitary District

Schedule of Operating Expenses Year Ended June 30, 2004

System Maintenance and Operation

Salaries and wages	\$ 388,255
Pension expense	104,738
Payroll taxes	26,908
Hospitalization	110,830
General insurance	56,867
Life insurance	1,092
Dental and optical insurance	1,174
Repairs and replacement	65,866
Telephone	4,831
Utilities	6,855
Office supplies and expense	4,167
Fuel and oil	5,817
Engineering	50,802
Miscellaneous expenses	<u>2,606</u>

Total system maintenance and operation **\$ 830,808**

General and Administrative

Board meetings	\$ 2,520
Professional fees	25,899
Miscellaneous expense	<u>3,183</u>

Total general and administrative **\$ 31,602**

December 30, 2004

To the Board Members
Southeast Macomb Sanitary District
20001 Pleasant Avenue
St. Clair Shores, MI 48080

Dear Board Members:

We have recently completed our audit of the financial statements of the Southeast Macomb Sanitary District (the "District") for the year ended June 30, 2004. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board Members and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the financial statements of the Southeast Macomb Sanitary District in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising internal controls that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Internal Controls

In planning and performing our audit of the financial statements of Southeast Macomb Sanitary District for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted one matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the District does not have an adequate segregation of accounting duties. We consider the lack of segregation of duties to be a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition noted above is a material weakness.

To the Board Members
Southeast Macomb Sanitary District

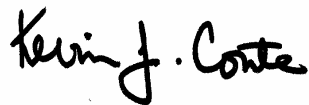
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December 30, 2004

As always, we thank the Board for the opportunity to serve. We would be happy to answer any questions you may have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Kevin J. Conte". The signature is written in a cursive, flowing style.

Kevin J. Conte